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BAY MILLS

LIMITED

ANNUAL REPORT

for the year ended July 31, 1968

INDUSTRIES USING OUR PRODUCTS:

Aircraft
Aluminum
Boat
Building Construction
Carpet
Cement
Chemical
Curtain
Electrical
Hardware
Highway Construction
Mining and Smelting
Paper
Pipeline Construction
Production Tooling
Reinforced Plastics
Rubber
Tent Manufacturing
Toy
Window Manufacturing

HEAD OFFICE

Midland, Ontario

DIRECTORS

Eric H. Cerny, *Montreal*
Steven F. Cerny, *Midland*
Gustave W. Fewks, *Montreal*
Robbert Hartog, *Midland*
Donald A. Jewitt, *Toronto*
Derek H. Mather, *Montreal*
Sydney J. Nicholls, *Midland*

OFFICERS

<i>Chairman of the Board</i>	Eric H. Cerny
<i>President</i>	Steven F. Cerny
<i>Vice-President</i>	Gustave W. Fewks
<i>Secretary-Treasurer</i>	Sydney J. Nicholls

EXECUTIVE

<i>General Manager</i>	Steven F. Cerny, B.Sc.
<i>General Sales Manager</i>	Sydney J. Nicholls, B.Eng.
<i>Controller</i>	Frank G. Spence, C.A.
<i>Manufacturing Manager, Midland</i>	Frank A. Hoffman
<i>Manufacturing Manager, St. Catharines</i>	Felix J. Kurschner

SUBSIDIARY COMPANY

Filterfab Limited

AUDITORS

Hutchins, Mullin & Blair
Chartered Accountants, Toronto

LEGAL COUNSEL

Salter, Reilly, Jamieson & Apple
Toronto

TRANSFER AGENT

The Metropolitan Trust Company
Toronto

BANKERS

The Toronto-Dominion Bank

ANNUAL MEETING

King Edward Hotel, Toronto
November 5, 1968

REPORT TO THE SHAREHOLDERS

It is a pleasure to report to you on a year of progress.

Net earnings for the year ending July 31st, 1968, were \$176,124 compared to \$103,317 for the previous year. After allowing for the annual dividend on our Preferred shares, net earnings for the last fiscal year amounted to 66.3c. per Common share compared to 32.4c. for the preceding year. Earnings before depreciation, interest, and taxes were \$578,435 compared to \$422,940.

Working capital as at July 31st stood at \$828,036 compared to \$620,004 the same date last year.

On August 21st, 1968, the Board of Directors declared a dividend of \$1.67½ per Preferred share. This payment covered the regular dividend as well as all arrears on the Preferred shares. Payment was made on September 13th. Under the provisions attaching to the Preferred shares, a participating dividend of 6c. per share will be added to the 15c. to be paid on December 15th, 1968.

Sales increased by 21.5% over the previous year. Our forecast calls for a somewhat lower increase in the current year. We expect to achieve this by better market penetration in existing product lines and by the introduction of several new products to markets that we have not previously served.

In April 1968 your Company embarked on a building expansion of its Hugel Avenue Plant in Midland. Ap-

Buildings completed, equipment fairly well installed

proximately 45,000 square feet of floor space have been added. The expanded plant which was originally built in 1964 will house almost all of the manufacturing facilities of the Company. The St. Catharines plant which was acquired in 1964 will be phased out and the building and land sold. The plant in which your Company started operations 24 years ago, located on Fourth Street in Midland, has recently been sold but the upper floor of that building will continue to be used for manufacturing under a lease arrangement.

Substantial savings resulting from consolidated manufacturing facilities are anticipated. These savings should be fully realized about a year from now but are not, by themselves, expected to materially improve earnings in the current fiscal year. The expansion is far enough along now that it can be said that no significant problems are anticipated. However, the program is a major one, and operating results for the fiscal first half are expected to be lower than they would otherwise have been. Along with the consolidation of plant, additional equipment is being installed which will increase capacity by 20%.

The above program involving a total of \$1,200,000 is being financed as follows: \$400,000 of Series B Bonds bearing interest at 8% have been sold. A ten-year \$250,000 Note bearing interest at 7% and a three-year \$150,000 Note bearing interest at 8% have also

been sold. Attached to the Bonds and Notes are Common Share Purchase Warrants as detailed in the Notes to Financial Statements. A Grant of approximately \$225,000 will be received from the Federal Government under Area Development legislation. The balance of the program will be financed from working capital.

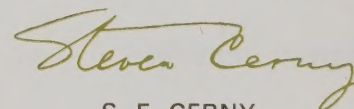
During the year, your Company obtained the exclusive Canadian rights to a new method of making industrial fabrics. Although still in the development stage, the new process looks promising and your management is optimistic about its potential.

At a recent meeting, your Board of Directors regretfully accepted Mr. J. Reg. Findley's resignation. Mr. Findley has been a director since 1963, when Bay Mills changed from a private to a public company. Mr. Findley's advice during difficult times has been most helpful and constructive. The Board appointed Mr. Derek H. Mather in his place. Mr. Mather is an officer of Canadian Enterprise Development Corporation Limited.

The results produced have required hard work and team effort from all those involved. Your Board and Management extend their thanks to all of our employees, and to all customers and suppliers who have worked with us.

As of this writing, operations are up to forecast and the outlook for the coming year is encouraging.

Respectfully submitted,
On Behalf of the Board



S. F. CERNY,
President

Midland, Ontario
October 2, 1968

BAY MILLS LIMITED

and wholly owned subsidiary

Statement of Earnings Year Ended July 31, 1968

	1968	1967
EARNINGS (before undernoted items)	\$578,435	\$422,940
Depreciation	165,171	171,208
Interest on funded debt	41,140	43,415
Taxes on income	196,000	105,000
NET EARNINGS	<u>176,124</u>	<u>103,317</u>

Statement of Surplus Year Ended July 31, 1968

	1968
BALANCE AUGUST 1, 1967	\$417,758
Net Earnings	<u>176,124</u>
	593,882
Less :	
Dividends paid on preferred shares	\$ 27,600
Appropriated to reserve for redemption of preferred shares	3,409
Prior year adjustments, net (Note 3)	<u>8,207</u>
BALANCE JULY 31, 1968	<u>554,666</u>

Reserve for Redemption of Preferred Shares Year Ended July 31, 1968

	1968
BALANCE AUGUST 1, 1967	\$ 836
Add amount appropriated from earned surplus	<u>3,409</u>
BALANCE JULY 31, 1968	<u>4,245</u>

ASSETS

CURRENT ASSETS

	1968	1967
Cash.....	\$ 425	\$ 320
Accounts receivable, trade, less allowance for doubtful accounts.....	978,653	660,421
Inventories, at lower of cost and replacement value.....	824,831	948,919
Refundable taxes on income.....	—	11,716
Prepaid expenses.....	11,141	23,417
Total current assets.....	1,815,050	1,644,793

FIXED ASSETS (at cost — Note 4)

Buildings.....	944,762	879,762
Machinery and equipment.....	1,402,648	1,341,807
Furniture and fixtures.....	37,873	33,525
	<u>2,385,283</u>	<u>2,255,094</u>
Less accumulated depreciation.....	1,076,616	911,445
	<u>1,308,667</u>	<u>1,343,649</u>
Land.....	25,103	9,297
Construction in progress.....	152,132	—
Total fixed assets — net.....	1,485,902	1,352,946

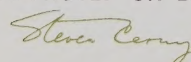
OTHER ASSETS

Deposits (Note 4).....	62,658	6,044
Special refundable tax.....	10,715	—
Total other assets.....	73,373	6,044

3,374,325

3,003,783

APPROVED ON BEHALF OF THE BOARD



S. F. Cerny, Director



S. J. Nicholls, Director

The accompanying notes form an integral part of the financial statements

CONSOLIDATED BALANCE SHEET, JULY 31, 1968

LIABILITIES

CURRENT LIABILITIES

	1968	1967
Due to bank, secured	\$ 278,074	\$ 432,736
Accounts payable and accrued liabilities	540,831	507,053
Accounts payable equipment, secured	67,500	50,000
Current portion of first mortgage bonds	35,000	35,000
Taxes on income, estimated	65,609	—
Total current liabilities	987,014	1,024,789

FUNDED INDEBTEDNESS

First mortgage bonds series A (Note 1)	595,000	630,000
Note payable, due December 31, 1971	150,000	—
Total liabilities	1,732,014	1,654,789

DEFERRED TAX CREDIT (Note 3)	258,000	105,000
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SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized :		
150,000 preferred shares, par value \$10 each		
500,000 common shares, no par value		
Issued :		
Preferred — 60,000 6% cumulative redeemable, participating first preferred shares Series A	600,000	600,000
Common — 205,985 shares (Note 5)	225,400	225,400
	825,400	825,400

SURPLUS (Note 2)	554,666	417,758
Reserve for redemption of preferred shares	4,245	836
Shareholders' equity	1,384,311	1,243,994
	3,374,325	3,003,783

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – First Mortgage Bonds Series A

First Mortgage Sinking Fund Bonds "Series A" in the principal amount of \$700,000 were created under a Trust Deed Agreement dated September 1, 1964. The bonds bear interest at 6½% per annum, mature on September 1, 1984 and are repayable in principal amounts of \$35,000 per annum. The Series A bonds are redeemable at the option of the company at any time on not less than 30 days' prior notice at the prices and subject to the terms and conditions contained in the Trust Deed. A special covenant for the Series A bonds contained in the Trust Deed stipulates that cash dividends cannot be paid if, after giving effect thereto, the consolidated net current assets would be reduced below \$500,000. The consolidated net current assets at July 31, 1968 exceeded this amount.

NOTE 2 – Dividends on Preferred Shares

On August 21, 1968 a dividend of \$90,000 was declared in payment in full of the arrears of dividends on the preferred shares, payable September 13, 1968.

Under the terms of the preferred shares Series A, a participating dividend equal in aggregate amount to 5% of each full \$12,000 in excess of \$90,000 of consolidated net earnings must be paid. This dividend which will total \$3,600 must be paid on December 15, 1968.

NOTE 3 – Deferred Tax Credit

Taxes on income provided for the year are: charged to operations \$196,000, and charged to surplus \$46,433. Of these amounts approximately \$136,000 and \$17,000 respectively have been deferred.

The deferred tax credit represents the tax on approximately \$488,000 of capital cost allowance claimed in excess of that recorded in the accounts.

NOTE 4 – Capital Expansion Program

The company is undertaking a capital expansion program of its Midland plant and equipment facilities. Expenditures to July 31, 1968 have been approximately \$225,000. The funds to finance the balance of this program have been arranged as follows:

First Mortgage Bonds – 8% – 20 years	\$400,000
Area Development Grant – approximately	225,000
Note 10 year, 7%	250,000
	<hr/>
	\$875,000

In addition the company has agreed to sell its former Midland plant and property and proceeds of this sale are expected to be \$65,000.

NOTE 5 – Outstanding Common Share Warrants and Options

	<i>Number of Shares</i>
Optioned under employment contract at \$4.50 per share . .	7,500
Warrants with "Series A" Bonds, \$6.00 per share to 1969, \$7.00 per share to 1974	21,000
Warrants with proposed "Series B" Bonds, \$5.00 per share to 1974, \$6.00 per share to 1979	12,000
Warrants with proposed 10-year note, \$4.50 per share to 1973, \$5.50 per share to 1978	50,000
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	90,500

NOTE 6 – Other Information

No directors' fees were paid. Remuneration to directors holding salaried employment amounted to \$106,032. Sales in 1968 increased by 21.5% over 1967.

AUDITORS' REPORT

To the Shareholders,
Bay Mills Limited.

We have examined the consolidated balance sheet of BAY MILLS LIMITED and wholly owned subsidiary as at July 31, 1968, and the consolidated statements of earnings, surplus, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the consolidated financial position of the companies as at July 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 6, 1968

HUTCHINS, MULLIN & BLAIR
Chartered Accountants

BAY MILLS LIMITED

and wholly owned subsidiary

Statement of Source and Application of Funds Year Ended July 31, 1968

SOURCE OF FUNDS

	1968	1967
Net earnings.....	\$176,124	\$103,317
Non cash items:		
Provision for depreciation.....	165,171	171,208
Deferred taxes on income.....	153,000	105,000
Note payable.....	150,000	—
	<u>644,295</u>	<u>379,525</u>

APPLICATION OF FUNDS

Net additions to land, building, machinery and equipment.....	298,127	141,811
Decrease in first mortgage bonds.....	35,000	35,000
Dividends on preferred shares.....	27,600	—
Increase in other assets.....	67,329	2,289
Prior year adjustments, net.....	8,207	—
	<u>436,263</u>	<u>179,100</u>

NET CURRENT ASSETS

NET INCREASE FOR YEAR.....	208,032	200,425
Beginning of year.....	620,004	419,579
End of year.....	<u>828,036</u>	<u>620,004</u>

OPERATING RESULTS

	1968	1967	1966
<i>Earnings</i>	\$ 578,435	\$ 422,940	\$ 243,744
<i>Provision for Depreciation</i>	165,171	171,208	170,560
<i>Interest</i>	41,140	43,415	45,317
<i>Provision for Taxes on Income</i>	196,000	105,000	—
<i>Net Earnings</i>	176,124	103,317	27,867
<i>% of Shareholders' Equity at Beginning of Year</i>	14.2%	9.1%	2.5%
<i>Per Common Share</i>	66.3c.	32.4c.	(3.9c.)

BALANCE SHEET DATA

<i>Net Current Assets</i>	\$ 828,036	\$ 620,004	\$ 419,579
<i>Fixed Assets less Depreciation</i>	1,485,902	1,352,946	1,382,343
<i>Other Assets</i>	73,373	6,044	3,755
<i>Net Tangible Assets</i>	2,387,311	1,978,994	1,805,677
<i>Funded Debt</i>	595,000	630,000	665,000
<i>Other Deferred Financing</i>	408,000 †	105,000 †	—
<i>Shareholders' Equity</i>	1,384,311	1,243,994	1,140,677

FINANCIAL RATIOS

<i>Current Assets to Current Liabilities</i>	1.84	1.60	1.35
<i>Net Tangible Assets to Funded Indebtedness</i>	4.01	3.14	2.71
<i>Shareholders' Equity to Funded Indebtedness</i>	2.33	1.97	1.72

† Includes deferred tax credit

* Prior to expansion in 1965

COMPARATIVE TEN YEAR RECORD

1965	1964	1963	1962	1961	1960	1959
\$ 4,042	\$ 258,745	\$ 280,080	\$ 213,220	\$ 136,814	\$ 87,435	\$ 69,145
132,967	75,248	57,166	55,888	38,292	43,906	33,528
31,266	6,374	16,790	15,465	10,890	8,984	5,370
(69,107)	60,308	82,000	47,090	35,273	11,726	7,760
(91,084)	116,815	124,124	94,777	52,359	22,819	22,487
(7.3%)	22.2%	30.0%	30.2%	19.7%	10.1%	12.1%
(61.7c.)	39.2c.	—	—	—	—	—

\$ 370,598	\$ 601,685	\$ 406,244	\$ 324,896	\$ 269,078	\$ 237,985	\$ 192,579
1,427,739	803,392	313,812	305,383	180,926	210,412	139,009
14,473	11,425	15,882	8,370	6,981	6,892	5,533
1,812,810	1,416,502	735,938	638,649	456,985	455,289	337,121
700,000	170,000	210,410	234,719	143,331	189,495	110,645
—	—	—	—	—	—	—
1,112,810	1,246,502	525,528	403,930	313,654	265,794	226,476

1.32	2.25	2.04	2.06	2.16	1.84	2.10
2.59	8.33 *	3.49	2.72	3.19	2.40	3.05
1.59	7.33 *	2.50	1.72	2.19	1.40	2.05

